Testimony
of
Ron Litterer
National Corn Growers Association
Chairman, Public Policy Action Team

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on
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Good morning. Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association (NCGA) to discuss the impact of the federal crop insurance program across the corn belt. I am Ron Litterer, a corn, soybean and hog producer from Greene, Iowa. I currently serve as Chairman of NCGA's Public Policy Action Team and as a member of the Board of Directors of the Iowa Corn Growers Association.

The National Corn Growers Association was founded in 1957 and represents more than 32,600 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

I do not need to belabor the point that the past few years have been very challenging years for corn growers. Many producers have faced depressed markets followed by a period of prolonged drought - conditions that have jeopardized the financial viability of their farm operations and even forced their exit from agriculture. The transition to the new 2002 Farm Bill has also required considerable adjustments by producers and their lending institutions as the timing of program payments has impacted cash flows.

The difficult and varied circumstances that corn growers have faced in recent years have demonstrated the need for further improving the farm safety net. In our view, the Congress took a major step forward with adoption of the Agriculture Risk Protection Act of 2000. The commitment of additional resources to higher levels of premium subsidies has not only resulted in significant increases in participation and the percentage of acres covered, but it has facilitated a dramatic shift toward higher levels of coverage. This positive development tells us the federal crop insurance program has become an even more important risk management tool for corn growers and other producers as well.

Our growers, overall, look at the numbers and recognize the upward trends as real progress. The reforms of 2000 are making a real difference. More producers have far more protection and peace of mind to deal with crop losses and lower prices than they did three years ago. U.S. producers received over $4 billion dollars in loss payments just for the 2002 crop year, while receiving $1.7 billion in premium subsides. In the previous year, the federal crop insurance program paid out almost $3 billion in indemnity payments. Compare these sums with the crop disaster program of $3.1 billion for the last two years and you can understand why the program is so critical to American farmers.

This is not to say our members are content with the status quo. NCGA is looking for reasonable changes in the program' regulations, including those that govern prevented planting provisions, quality loss adjustments that are more accurately tied to real market value, improved coverage of center-pivot dryland corners that allows same row direction while keeping separate units for irrigated and dryland acres, and ratings of buy-up coverage that better reflect trend yield growth and determine policy guarantees. We are encouraged, though, by the RMA's ongoing outreach to seek input from growers, particularly on reforms to prevented planting and quality loss adjustment provisions.

For NCGA, the subsidy structure of the federal crop insurance program should encourage producers to insure adequate revenue to avoid devastating losses, but it must not artificially stimulate production. To say the least, this requires a real balancing act - to reach an optimal level of financial incentives, ensure actuarially sound policies, and minimize fraud and abuse which undermines the program's integrity and the industry's financial health. NCGA is prepared to work with the Risk Management Agency and the crop insurance industry to further strengthen the program.

Briefly, I would like to summarize some of NCGA's key areas of concern. One needs to look no further than the past year to understand there are still gaps of vulnerability within the farm safety net. There is no question that producers have a much more reliable farm bill in terms of protection against depressed commodity market prices. But, we also have to recognize that many crop insurance participants who experience shallow, but significant crop losses in back to back years can find themselves in no man's land. If they have lost, for example, 25 percent of their crop, they most likely cannot file a loss claim nor would they qualify under today's crop disaster program. One crop year with this kind of crop loss should be sustainable. But, two or three years of these kinds of losses even under favorable commodity prices, can seriously impact net farm income and erode a producers' equity.

While NCGA recognizes that repetitive losses can adversely impact a grower's average production history, the APH, and consequently the value of indemnity payments, we urge the committee and the RMA to consider innovative alternatives beyond artificial adjustments to T yields and the APH. We fear that this kind of approach would invite ill advised planting decisions, and the unintended consequence of higher premiums for producers where the incidence of repetitive crop losses has a much lower probability.

NCGA believes there are more constructive ways to address the problem of eroding indemnity benefits resulting from multi-year production losses. We are very concerned that in failing to address this situation, sustaining the increase in program participation and reducing the need for annual ad-hoc disaster assistance legislation will become increasingly difficult. We suggest that one potential solution would be to develop a supplemental insurance product that would cover a producer's deductible when two years of consecutive losses exceed a predetermined percentage of average production. In addition, we believe a wider availability of Group Risk Income Protection (GRIP), now limited to five states; Illinois, Indiana, Iowa, Michigan, and Ohio, would provide producers the option of more affordable protection against widespread area losses. NCGA intends to develop several concepts and survey corn growers on these and other risk management proposals later this fall.

Short of creating an add-on or supplemental insurance product, NCGA supports reforms to traditional crop disaster aid that is approved on an ad-hoc basis. Last year, NCGA's Disaster Assistance Task Force went to work on developing and proposing a new program to deliver disaster aid in a way that is more equitable and effective and also encourages participation in the crop insurance program. The Task Force first recognized that crop insurance reforms approved three years ago are now part of a very different farm safety net with the addition of the new counter cyclical payment program. Secondly, NCGA observed that traditional disaster aid programs have targeted disproportionate payments to growers with large yield losses, but growers could still lose up to 35% of their expected crop and sustain substantial financial losses. Moreover, the current crop disaster program duplicates the coverage for losses already protected under subsidized federal crop insurance policies.

Legislation introduced by Rep. Sam Graves, the Companion Disaster Assistance Program Act, would compliment the crop insurance program by covering a portion of the uninsurable deductible rather than duplicating the insurance coverage and provide payments more proportionate to the severity of actual crop losses. We also believe that disaster payments can be delivered sooner and in a more targeted way because most growers who collect indemnity payments on their insurance policies would be eligible to collect a disaster payment.

Mr. Chairman, I would like to comment on two other issues that are of immediate concern to NCGA. First, is the Administration's proposal to reduce funding for the administrative and operating expense reimbursement to the insurance companies and negotiation of the Standard Reinsurance Agreement. While we certainly believe there are improvements in services that need to be made by the industry and crop insurance agents, we have questions regarding any funding changes that can potentially undermine these services and any financial incentives for companies to continue to service the federal crop insurance program. Any savings that might be achieved in the short term could hinder efforts to produce program refinements and new products that producers are looking for today. NCGA urges the Congress and the RMA to proceed with caution on these complex matters.

Secondly, NCGA wishes to express our opposition to language in the Senate Agriculture Appropriations for Fiscal Year 2004 that restricts the use of funds under the Agriculture Management Assistance program. The language in Section 759 jeopardizes the ability of corn growers in underserved states such as New York, Pennsylvania, and Maryland to receive an additional subsidy to purchase higher levels of crop insurance coverage. NCGA has learned that participation in the crop insurance program by producers in 15 underserved states increased by more than 25 % in direct response to the additional subsidy. Last year's action by Secretary Veneman to dedicate the AMA funds for this purpose is an excellent example of how taxpayer dollars can be better spent to provide a more predictable and reliable farm safety net.

Finally, Mr. Chairman, I want to thank you and the Members of this Committee for holding this hearing on a program that offers tremendous benefits to corn growers throughout this country. We appreciate your support and your continued efforts to further improve upon its successes.